

**Testimony of
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for Asia and Near East
U.S. Agency for International Development
before the
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Mr. Chairman, thank you for the opportunity to testify on the humanitarian and economic situation in the West Bank and Gaza, as well as aspects of the U.S. assistance program.

Much has taken place since the last time I had the opportunity to brief the committee a year ago on the USAID program in the West Bank and Gaza. Israel successfully completed its withdrawal from the Gaza Strip and four settlements in the northern West Bank; multiple rounds of municipal elections have been held; and most recently the Palestinian legislative elections took place. The results of the parliamentary elections will undoubtedly have implications for U.S. foreign policy and for the U.S. assistance program to the Palestinian people. I would like to begin my testimony outlining the current economic and humanitarian situation on the ground today.

Through four years of the intifada, Palestinians have faced considerable hardships, including a decline in employment opportunities and disposable income, and a decline in the overall quality of life. Shifting its program to meet those needs, USAID helped create jobs, revitalize businesses, build roads and water infrastructure, and meet the health care and nutrition needs of the most vulnerable. However, significant challenges remain.

The economic situation in the West Bank and Gaza has shown some improvement over the past year. The primary reasons for this modest growth are an increase in public expenditures; increased demand from Israel for Palestinian export merchandise and labor; a relaxation of border restrictions and closures; an increase in credit provided to private sector businesses; and an increase in donor disbursements. The Palestinian economy, however, continues to perform much below its potential with per capita incomes remaining some 29 percent below the 1999 level. The legacy of four years of conflict during the intifada and continued closures has resulted in significant reductions in personal incomes, exports, investment, production and employment, particularly in Gaza. The Palestinian economy depends heavily on Israel for exports, imports, and employment. For example, in the first quarter of 2005 over 70 percent of imports came from Israel and 10 percent of all employed Palestinians were employed in Israel or Israeli settlements. High unemployment; limited trade opportunities; and continued closures, as a result of security concerns, both within the West Bank and Gaza and externally, have stymied growth.

Today the Palestinian Authority (PA) is facing an imminent fiscal crisis. In 2005, the PA's budget deficit reached about U.S. \$800 million, of which donors outside the United States financed \$340 million. Short-term borrowing from banks covered the remainder. The PA cannot continue this unsustainable practice. Moreover, 63 percent of the PA's revenue is composed of customs tariffs collected by Israel and then transferred to the PA. The Government of Israel has indicated that because it will not transfer funds that may become available to Hamas, these transfers will be terminated. This will cause immediate and extreme financial

pressures on the PA, particularly in its ability to pay the wages of an estimated 150,000 government employees.

With respect to the humanitarian situation, poverty is a major problem with 46 percent of Palestinians living below the poverty level. Income levels have steadily fallen since 1999. A growing class of “new poor” exists --- families who have lost their source of income, have no savings left and have had to sell their private and productive assets. High unemployment continues to be a major concern, leading not only to poverty but also to despair and frustration among Palestinian people. Unemployment overall for the West Bank and Gaza is estimated at 23.4 percent compared with 10 percent before 2000. Reaching nearly 50 percent, the unemployment level in Gaza is much higher than in the West Bank. Of particular alarm is a high level of unemployment for youth in both the West Bank and Gaza.

In addition, many families lack the financial resources and resiliency to provide adequately for basic necessities such as food, water, health care, and medicines. It is estimated that 37 percent of Palestinians do not have enough food to meet basic daily nutrition needs, and one in four children under five is anemic due to poor nutrition. Approximately 2,800 children die every year from mainly preventable diseases, and only one-third of new mothers receive follow-up medical care within six weeks after delivery.

Limited access to potable water and to adequate sanitation increases the risk of poor health. Nearly 1.2 million people in West Bank and Gaza, including approximately 200,000 children under the age of 5, lack access to sufficient and affordable quantities of safe drinking water. Proper sewage treatment and disposal is nearly non-existent outside of the cities of Ramallah, Al Bireh, and Gaza City. Scarce groundwater supplies are frequently contaminated by seepage from leaking septic tanks and untreated sewage discharges from larger cities. In this context, the relatively high frequency of diarrhea among children under five --- 18 percent in any two week period --- is not surprising. Frequent episodes of diarrhea can contribute to malnutrition and diminished learning abilities, and have an overall negative impact on childhood development. The humanitarian situation in the West Bank and Gaza is likely to deteriorate even further in the near future, with an expected decrease in donor flows.

Given the political and logistical realities on the ground, managing the U.S. assistance program in the West Bank and Gaza has many challenges. As guardians of U.S. taxpayers’ money, we pay particular attention to the appropriate and secure use of foreign assistance funds. In order to ensure that no U.S. government resources fall into terrorist hands, USAID has developed an extensive system of safeguards, monitoring, and evaluation to make sure the aid program in the West Bank and Gaza is completely transparent and accountable.

The first step of this process is the formation of a cohesive strategy for development projects in the West Bank and Gaza that meets U.S. foreign policy objectives while at the same time responds to the needs of the Palestinian people. In developing this strategy, USAID undertakes extensive reviews of previous projects and holds consultations with a wide variety of stakeholders including the Government of Israel, other governments and donors, locally based non-governmental organizations (NGOs) and other representatives of the Palestinian people. The majority of USAID funds are awarded through a full and open competitive procurement process to implementing partner organizations and individual aid recipients. This open

competition ensures that our taxpayers and ultimate beneficiaries receive the best goods and services available.

USAID implements several formal anti-terrorism measures including: vetting; the anti-terrorism certification; and mandatory clauses reminding contractors and grantees of their legal duty to comply with applicable anti-terrorism laws and regulations. Before making awards, USAID requires all U.S. and non-U.S. organizations to certify that they do not provide material support or resources for terrorism. This “Anti-Terrorism Certification” applies to all first-tier and second-tier assistance recipients and has been in effect since 2002. All NGOs that receive USAID funds are required to sign this certification. All contracts and grants also contain a mandatory clause reminding awardees of their duty to comply with U.S. laws and Executive Orders prohibiting assistance to terrorist organizations.

Since 2001, USAID has vetted recipients of U.S. assistance. The vetting process involves the personal knowledge of USAID and other staff and searches of databases maintained by other U.S. government agencies, including the Embassy in Tel Aviv and the Consulate General in Jerusalem. Among other things, this review includes checking the list of parties excluded from federal procurement and non-procurement programs (suspended/debarred list) and checking the Office of Foreign Assets Control specially designated nationals and blocked persons lists. USAID also vets beneficiaries if there is any reason to believe that the beneficiary of such assistance commits, attempts to commit, advocates, facilitates or participates in terrorist acts, or has done so in the past.

Once an award has been made, USAID has established procedures to safeguard U.S. investments and ensure the transparency and integrity of U.S. assistance. In order to ensure that funding through local and U.S. NGOs is used only for agreed upon purposes, all NGOs are required to submit quarterly financial reports to USAID on how funds are spent. Also, all significant grantees and contractors’ local costs are audited by USAID’s Inspector General on an annual basis. In this year alone, the Inspector General audited 80 grantee and contractor awards. In addition to these annual audits, a Congressionally mandated Government Accountability Office audit is also underway.

During the course of program implementation, a comprehensive monitoring and oversight process enables us to assess the impact of programs and to verify contractor and grantee reporting. Given the difficult security and border crossing conditions, USAID has developed assistance interventions that can be effectively monitored by foreign service national staff in West Bank and Gaza, with some assistance from partner organizations. USAID also relies on the use of a Geographic Information System for the West Bank and Gaza program to track the progress of program activities as well as provide spatially oriented, political and socio-economic analysis.

Following Gaza disengagement, USAID programs provided critical assistance to help reinvigorate the Palestinian economy and make disengagement a success. Examples include: the rehabilitation of greenhouses and packing facilities preserving 4,000 jobs and revitalizing the flow of agricultural exports to Israeli and global markets; provision of scanners to expedite cargo traffic at key border crossings; construction/rehabilitation of schools and roads, which also provided much-needed employment opportunities; disbursement of home improvement and

micro business loans; and improvements to water treatment and distribution. All told, these and other programs benefited hundreds of thousands of Palestinians.

Also following disengagement, USAID sought opportunities to promote support for a peaceful, prosperous, independent Palestinian state. USAID developed and carried out projects that assisted President Abbas in getting a message out to the Palestinian people about peace, democracy, and development.

Recent polling data demonstrates that USAID's outreach campaign led to an increase in public awareness of the contributions of the American people to the Palestinian people. Of the 46 percent of the Palestinian population who saw the USAID outreach campaign, 50 percent are now aware and appreciative of the contributions of the American people. Seventy-five percent of respondents regard USAID projects as important for their well-being and 49 percent say these projects boost their positive attitude toward the United States and its people.

On January 25, 2006, the Palestinians held what is widely viewed as free and fair elections. The elections resulted in a change of power that clearly will have implications for the U.S. assistance program in the West Bank and Gaza. The U.S. government cannot and will not provide funding that benefits Hamas, which is a designated foreign terrorist organization. We are currently engaged in a review of our policy and a comprehensive review of our assistance programs. The scope of U.S. assistance is quite extensive with a wide range of programs that address basic human needs, engage moderate elements in society, defuse inter-ethnic and inter-religious tensions, support private sector revitalization, and build basic infrastructure. In our view, U.S. assistance still has an important role to play in the West Bank and Gaza to meet basic needs, to mitigate suffering through humanitarian and other assistance, and to maintain engagement with moderate elements. USAID can continue its work with non-governmental and international organizations so that more Palestinian families have access not only to basic food, clean water and healthcare, but also to employment and income generation opportunities and to assistance that promotes moderate views and progress towards the objectives of the Road Map. We will remain vigilant, Mr. Chairman, continuously reviewing and strengthening our safeguards, to assure that such funds go only to organizations that do not support violence or terrorism, and to assure that no U.S. funds flow through, or provide any benefit to, Hamas.



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